

Industry Analysis: *Hotel and Motel*

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Our team



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Agenda

1

**Industry
Background**

2

Accounting

3

**Executive
Compensation**

4

Textual Analysis

5

Finance

6

Event Studies

7

ESG Reporting

8

Conclusion



Industry Background

Industry Background

- **SIC : 7011**
- **Key Business:**
 - Provide short term lodging in hotels, motor hotels and resort hotels.
 - Some offer food and beverage services, recreational services, conference room and convention services.
 - This industry excluded hotels that have casino facilities attached
- The industry was heavily hit by the 2019 financial crisis and Covid-19 Pandemic
 - The industry revenue % dropped by **10.5%** in 2009
 - The hotel is one of the hardest hit industries by pandemic. Industry revenue % dropped by **42.9%** in 2020 pandemic
 - Skepticism among international travels and reducing tourism
 - Domestic restrictions

Industry Key Players

* Market Cap Listed In Million

Company Name	Market Cap	Company Name	Market Cap
Marriott Intl Inc	46,245.234	St Joe Co	2254.686
Hilton Worldwide Holdings	33846.790	Playa Hotels & Resorts N.V	1033.235
H World Group Limited	13238.222	Soho House & Co Inc	730.134
Intercontinental Hotels Grp	10244.854	Civeo Corp	473.280
Hyatt Hotels Corp	9623.970	Bluegreen Vacations Hol Corp	395.117
Wyndham Hotels & Resrts	6161.184	Greentree Hpty GP - ADS	382.316
Marriott Vacations Worldwide	5044.568	Intergroup Corp	94.650
Red Rock Resorts Inc	2321.100		

Risk Factors

Covid -19

Uncertain about spread of health crises in the future and related impact on consumer confidence and spending

Regulations

Need to comply with wide variety of highly complex laws can be time consuming and costly

Labor

Overall tightening and increasingly competitive labor market lead to sustained labor shortage and increase turnover rate

Privacy Laws

Change in privacy laws could adversely affect hotel's ability to market their product effectively

Inflation

Increasing cost and interest rate negatively impact the affordability of products and services

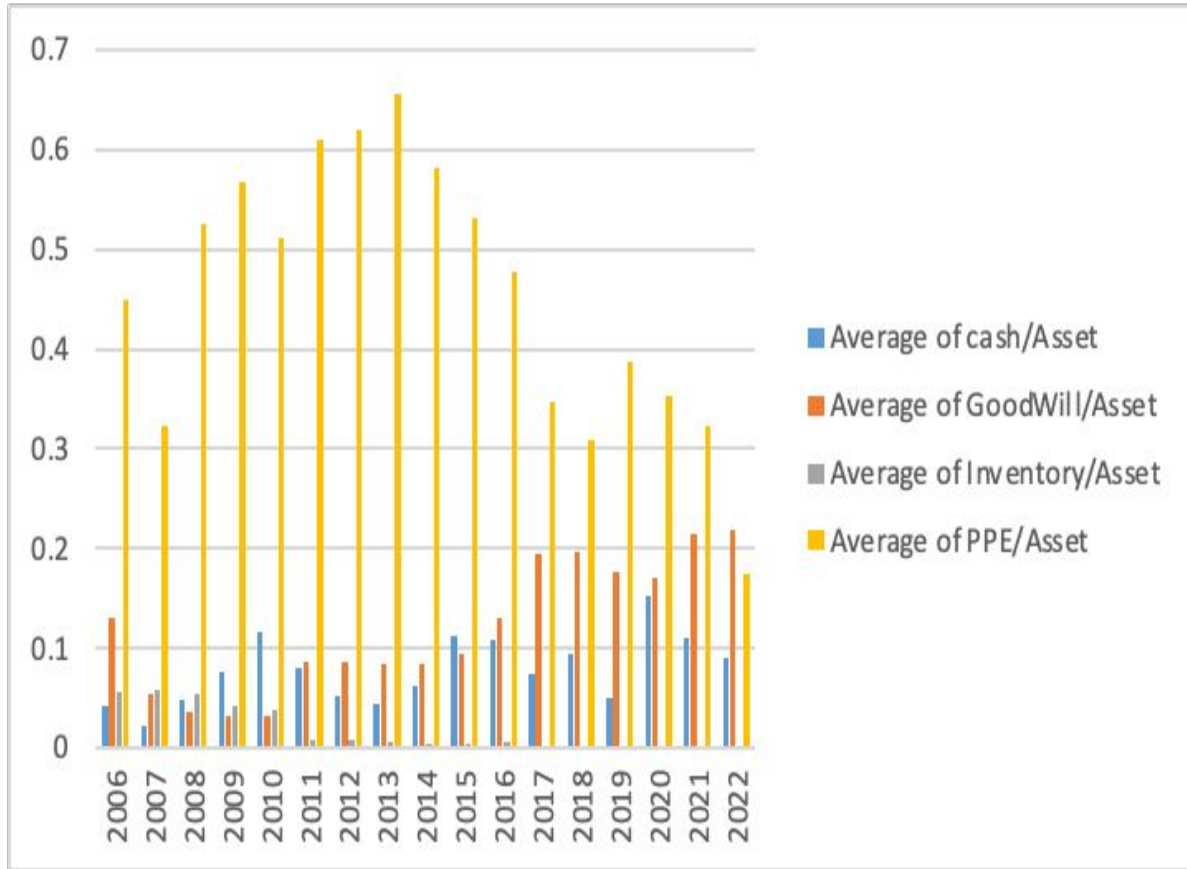
Cyber attacks

Failure to maintain integrity of customer data can result in reputation damages, fines and lawsuits



Accounting

Asset proportion change over time (largest 5)



PPE/Asset keep being largest from 2006 to 2021. It keep on increasing and reaches maximum proportion in 2013, however, it began decreasing after that and was overtaken by Goodwill in 2022

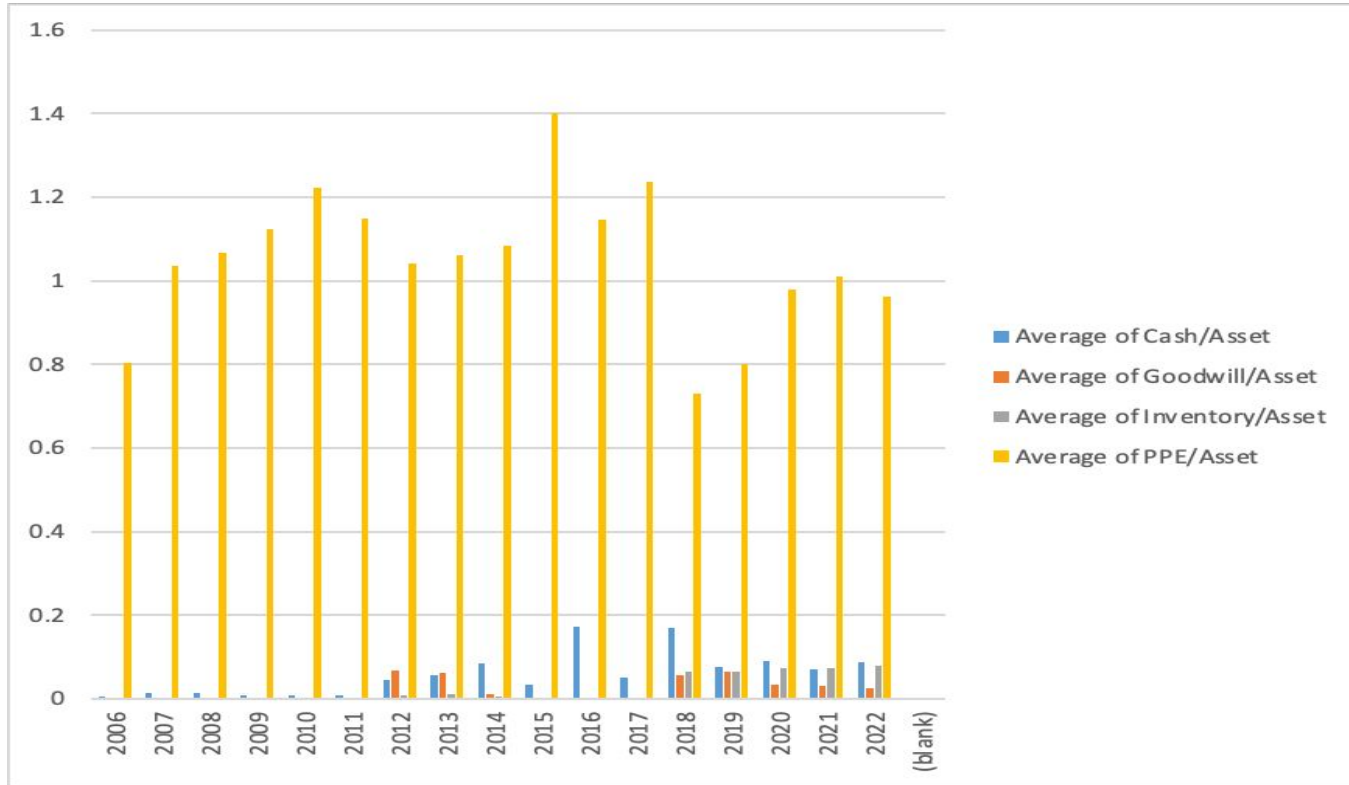
During 2006-2013 when international travel highly increases, large size hotels expand its operations by building or acquiring new hotel properties. Hotels also upgraded its existing assets to improve guest experience

2010 ↓ —Due to the Great Recession in 2009; Keep on grow after that—the global economy has been growing steadily after 2009

Decrease after 2014: Marriott International, Hilton Worldwide, and InterContinental Hotels Group all shift towards asset-light business models

Goodwill increases after pandemic: acquired other companies or hotel properties during the pandemic; renovations & rebranding

Asset proportion change over time (smallest 5)



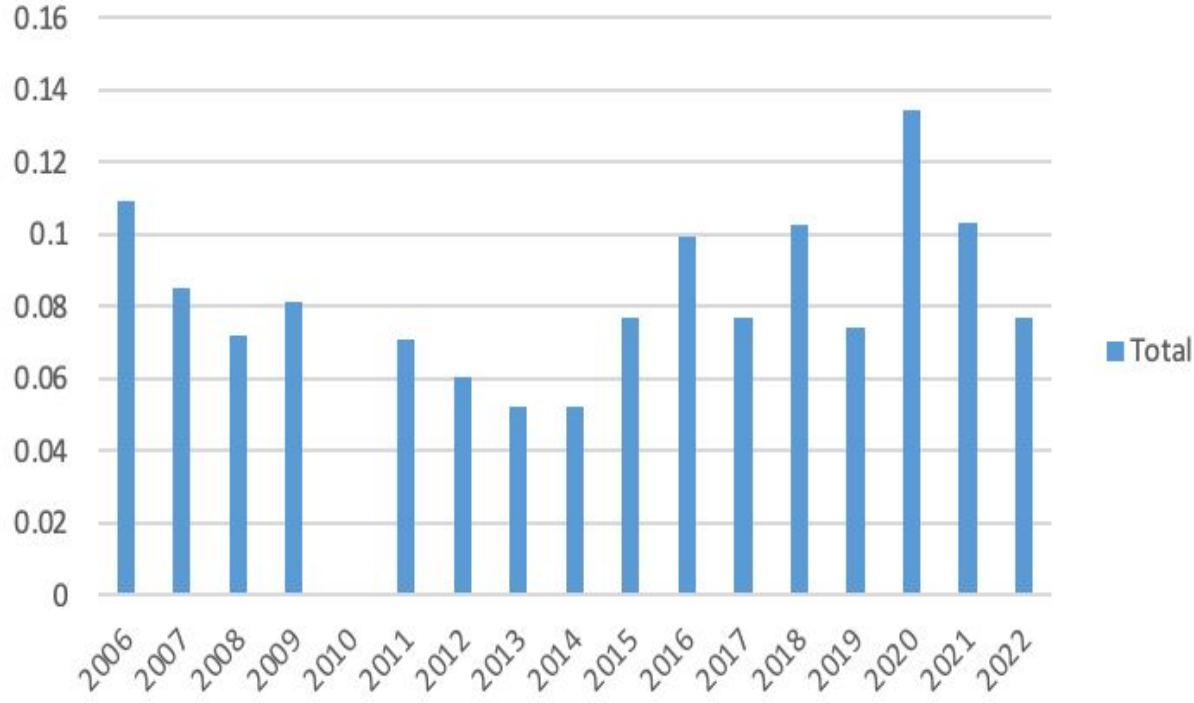
Smaller companies have larger proportion of PP&E and smaller all other types of asset compare to large size hotel companies

-Smaller hotel companies require fewer assets to operate— Higher proportion of PP&E



-Abnormal data— Subsidiary companies double count the data of their parent company


Cash proportion of the industry

Ave Cash/Asset over years



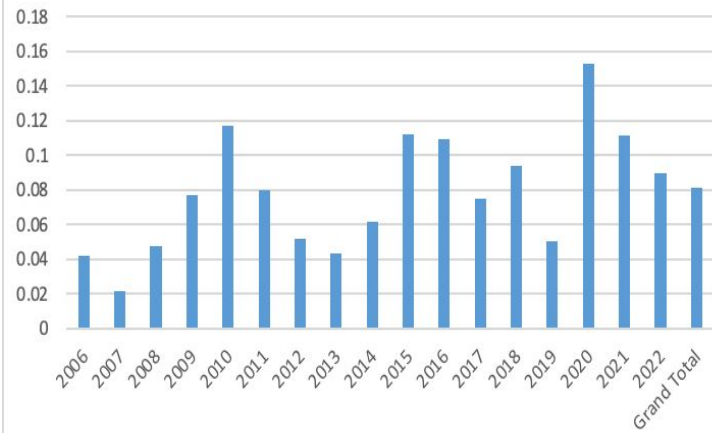
The Cash proportion decreases from 2006 to 2012:
- Global financial crisis that began in 2008

-Investing heavily in properties to expand their operations and upgrade their existing properties—Debt financing: liabilities  cash holdings 

Gradually increasing after 2014 and reach a maximum point in 2020: economy gradually recovered and grew steadily after financial crisis of 2008-2009—
 demand for hotel rooms —higher revenues & cash holdings


Decrease after 2020:COVID-19 pandemic had a significant negative impact on the hotel industry—experiencing a decline in revenue and cash flows.


5 largest companies Average Cash/Asset



Regular pattern: wave shape— companies make investment after they earn money.

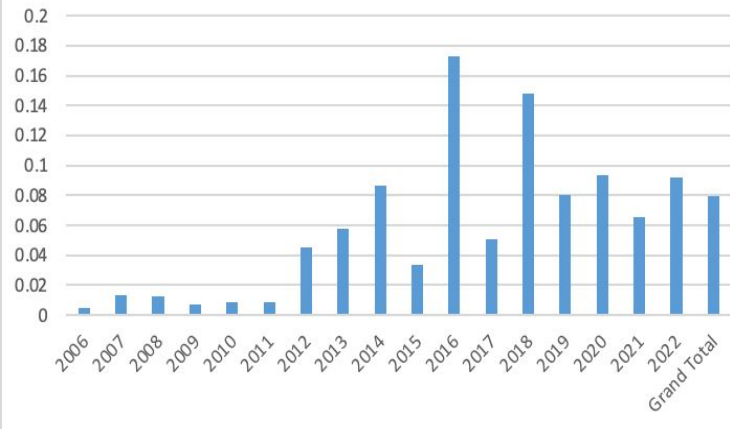
Sudden increase in 2020: Because of the pandemic, companies didn't invest the money the earned from the previous year.

2012- recover from financial crisis—demand 

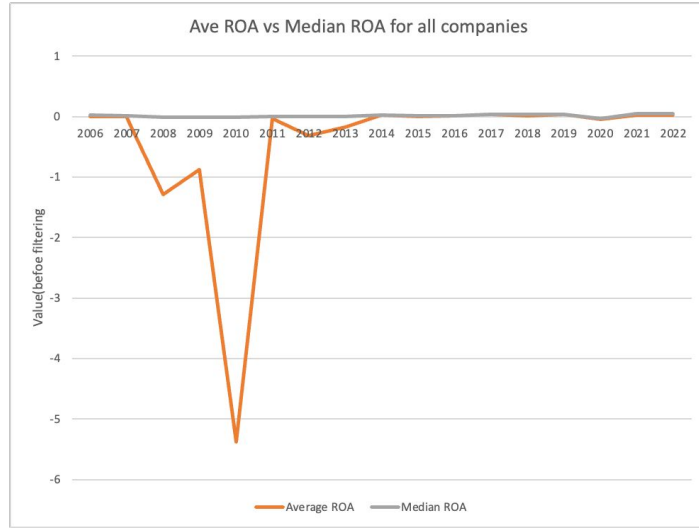
2016- Small company acquired—Asset 

Small company and large company really close after pandemic: Small companies get subsidy from government after pandemic.

5 smallest companies average Cash/Asset



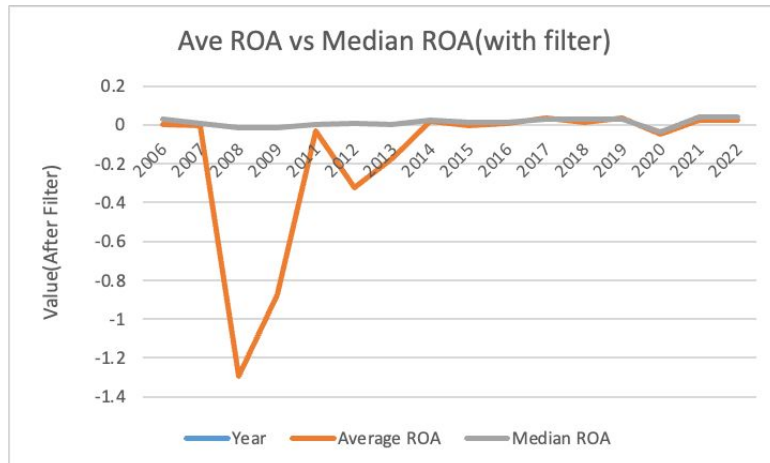
ROA median/mean



Outlier: 2010 (ROA: -5.38)

2014-2022: Both Average ROA and Median ROA are very stable—hotel industry is a mature industry with limited growth opportunities and a relatively stable competitive landscape

Stable Median ROA is a good sign for investors.



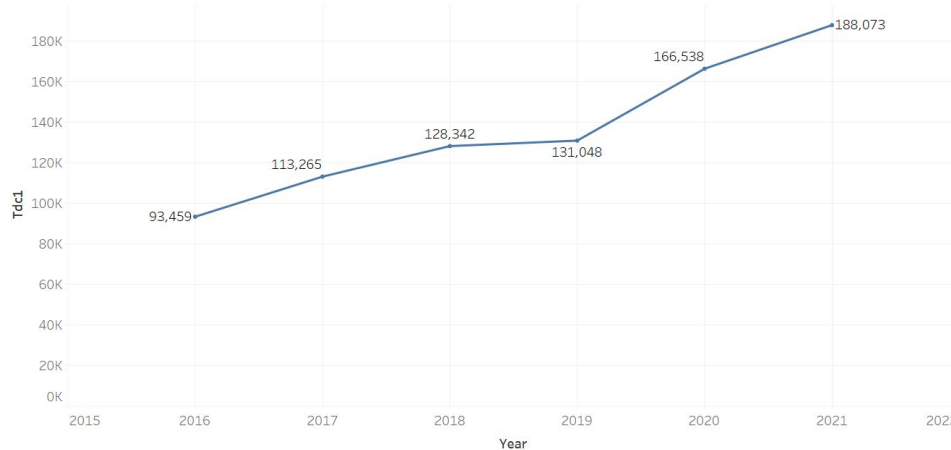
-In 2008, obvious dropdown only in average ROA means a few companies in the industry are highly impacted by financial crisis whereas the majority of companies are maintaining their profitability levels—both opportunities and risks for investors



Executive Compensation

Trend Of Executive Compensation

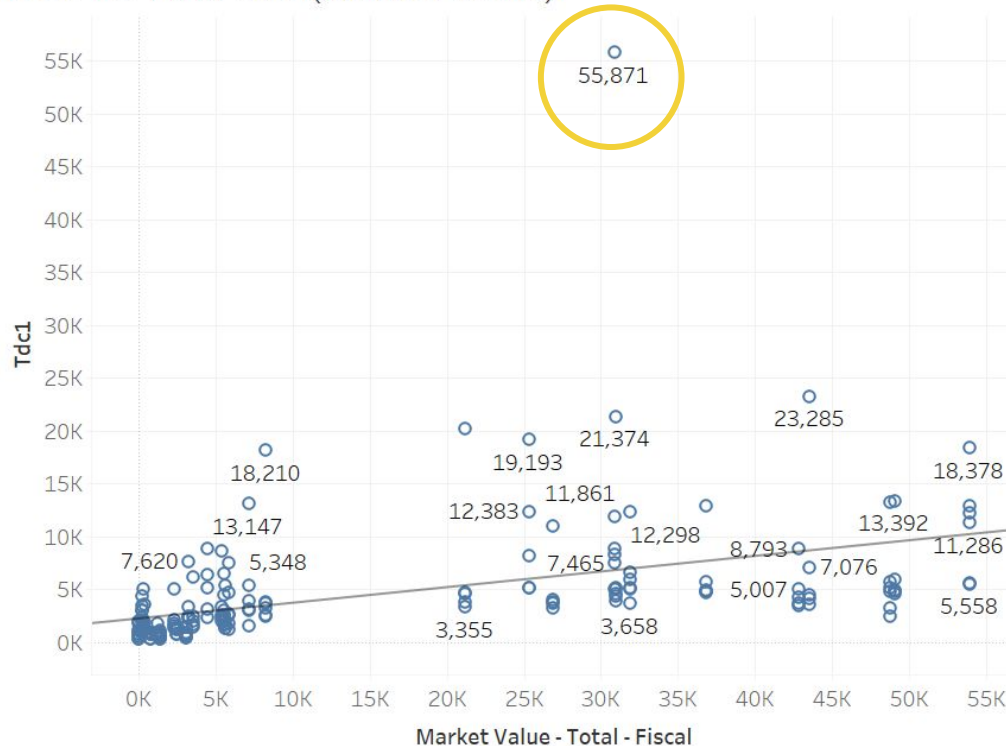
TDC1 Over Years



- Increasing trend overall throughout the years, expect a minor drop in 2019
- Reasons of drop:
 - Although base salary is fixed,
 - Bonus would most likely decrease due to reduce in demand of hotels
 - Stocks also drop aggressively during COVID (2019)

Executive Compensation vs. Firm Size

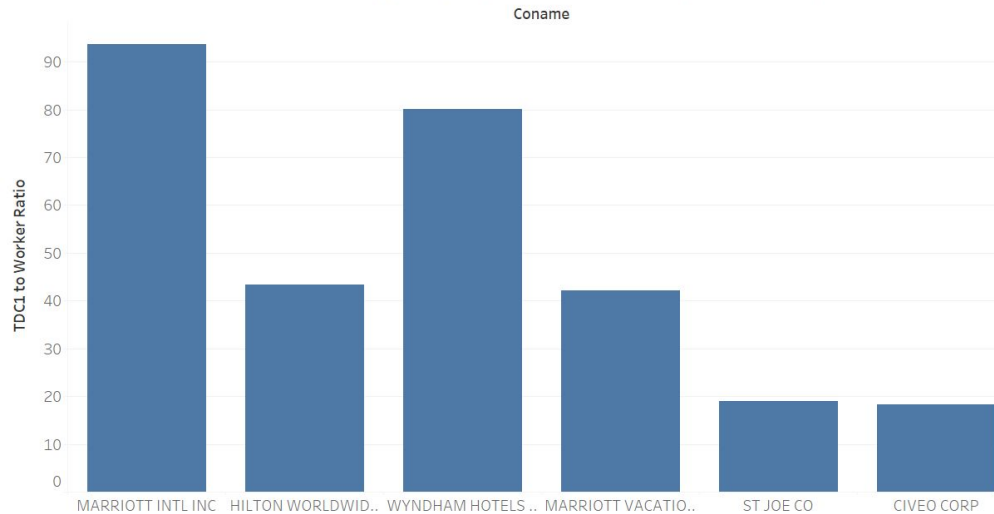
Tdc1 VS. Firm Size (Market Value)



- Positive relationship between executive compensation and firm size
- The bigger the firm size, the higher the compensation is
- Exception for outlier

Ratio of Executive Pay to Worker Pay

TDC1 to Worker Ratio Over Year (Company Order Ranked by Firm Size)



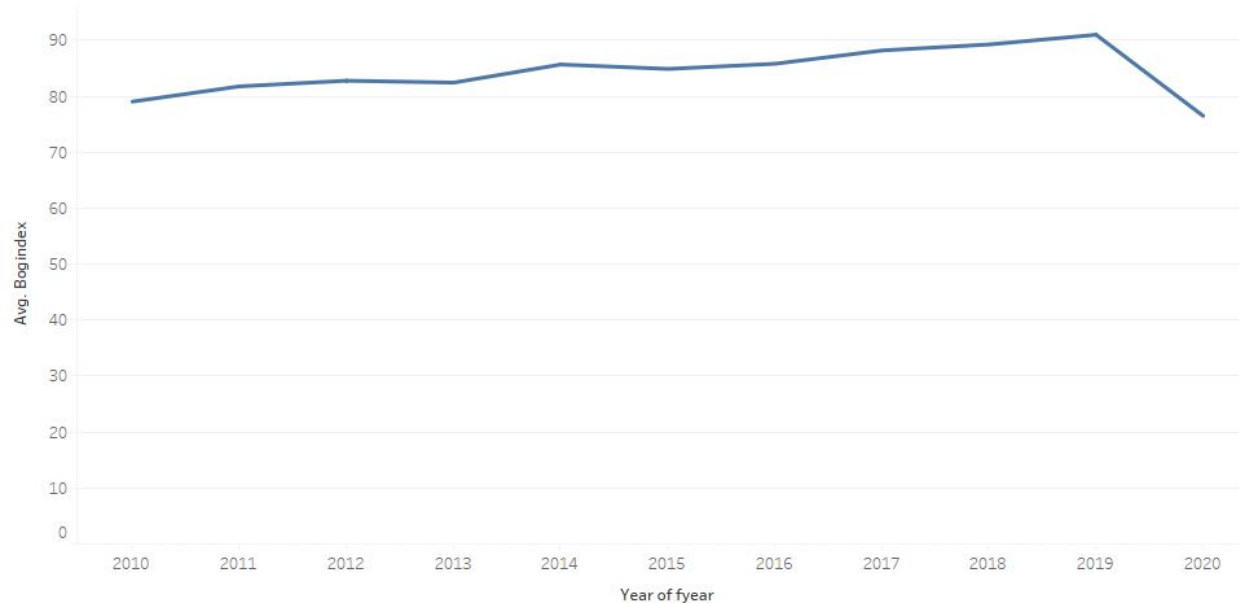
- Only six companies reported their executive pay in 2022
- General positive relationship between the ratio and firm size
- Hilton Worldwide Holding is an exception



Textual Analysis

Industry Bog Index drop significantly in 2019

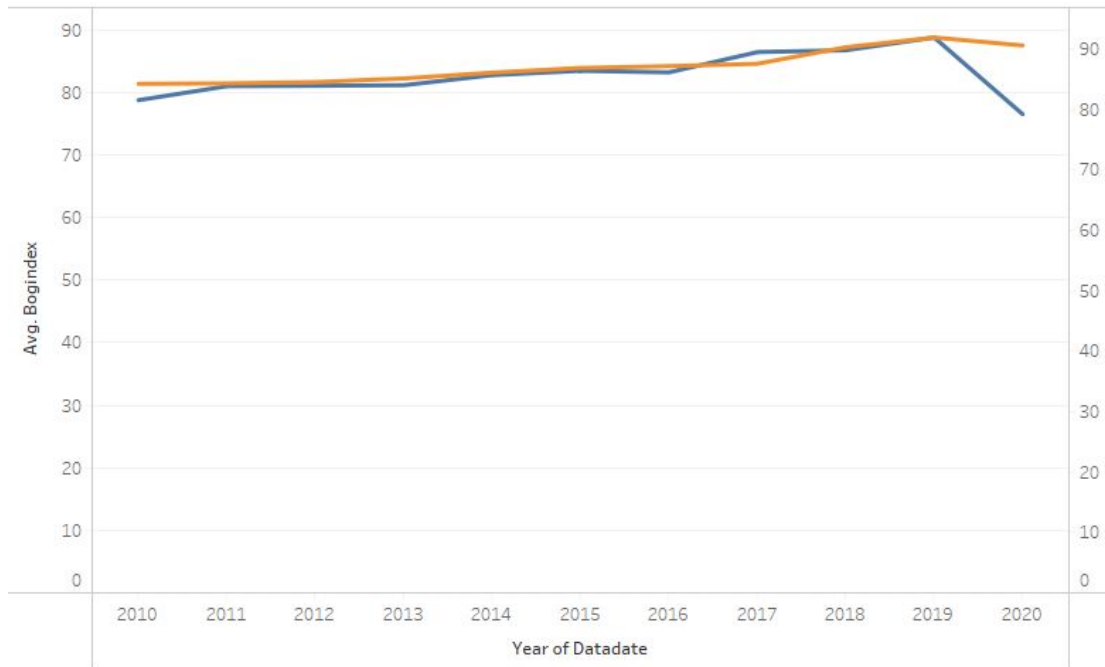
Change of Bog Index over years



Covid-19 stopped almost all travels. Many hotels and motels pause their businesses during pandemic. Firms no having business have less thing to include in their report, which explain why the bog index drop dramatically in 2019.

Industry Bog Index is close to all Bog Index

Industry Bog Index vs All Bog Index



- Industry Bog Index
- All Bog Index

Hotel industry bog index is following the all bog index trend, however, after 2019, industry bog index start to decline while all bog index stay relatively constant

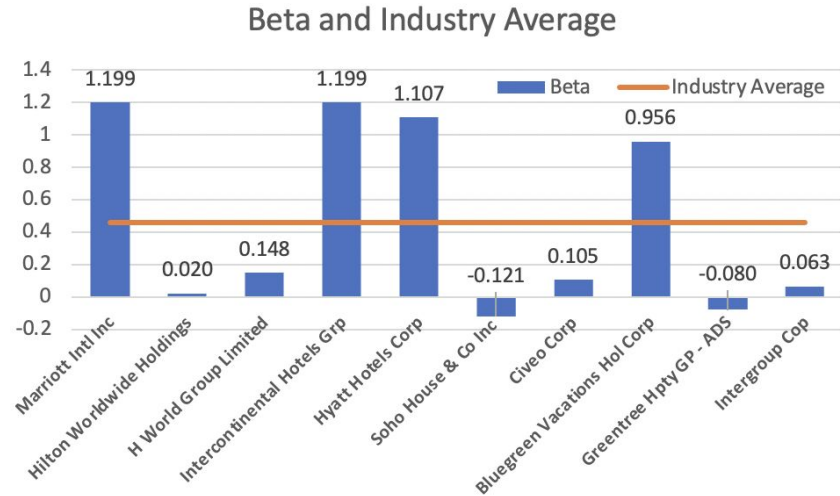
This is because some Industries did not affected by the pandemic, while Hotel is one of the industries most heavily hit by covid-19.



Financial Aspect of the Industry

Hotel and Motel Industry Beta Analysis

- The industry average Beta is less than 1 indicating the industry is less volatile than the market.
- A positive industry average betas indicate that our industry is generally in line with the market trend.



	Company Name	Ticket Name	Beta
The Largest firm	Marriott Intl Inc	MAR	1.1988
	Hilton Worldwide Holdings	HLT	0.0196
	H World Group Limited	HTHT	0.1478
	Intercontinental Hotels Grp	IHG	1.1986
	Hyatt Hotels Corp	H	1.1072
The Smallest Firm	Soho House & Co Inc	SHCO	-0.1208
	Civeo Corp	CVEO	0.1048
	Bluegreen Vacations Hol Corp	BVH	0.9564
	Greentree Hpty GP - ADS	GHG	-0.0795
	Intergroup Cop	INTG	0.0628
Industry Average			0.4596

Larger companies within the industry has more subsidiaries than smaller companies

5 Largest Companies	Number of Domestic Subsidiaries	Number of Foreign Subsidiaries
Marriott Intl Inc	367	420
Hilton Worldwide Holdings	174	243
H World Group Limited	218	36
Intercontinental Hotels Grp	154	135
Hyatt Hotels Corp	43	30
Average	191.2	172.8

5 Smallest Companies	Number of Domestic Subsidiaries	Number of Foreign Subsidiaries
Soho House & Co Inc	5	9
Civeo Corp	2	5
Bluegreen Vacations Hol Corp	44	2
Greentree Hpty GP - ADS	6	0
Intergroup Cop	27	0
Average	16.8	3.2

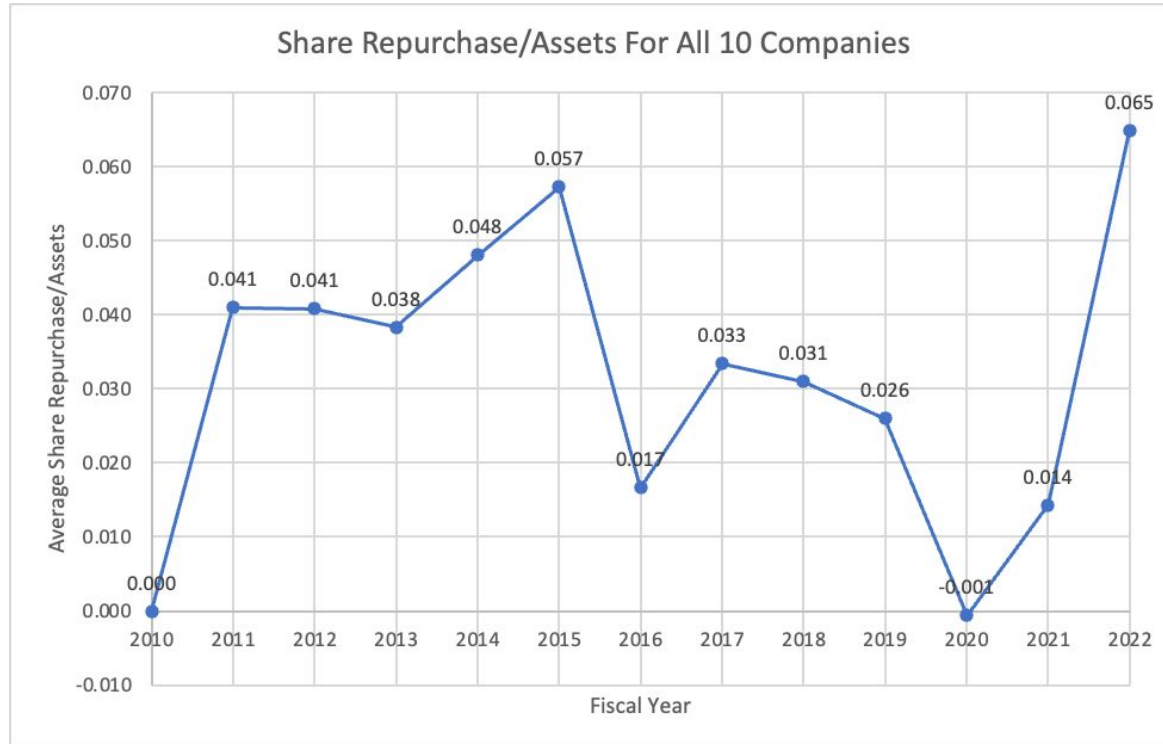
Why average # of **domestic subsidiaries** is **greater than** average # of **foreign subsidiaries**?

- Regulatory challenges: The regulatory environment varies significantly between countries.
- Brand recognition: companies have established strong brand recognition and customer loyalty in their home country.
- Language barriers.
- Infrastructure challenges: The availability and quality of infrastructure can vary significantly between countries.

Why **5 largest companies** average # of subsidiaries is **greater than 5 smallest companies**?

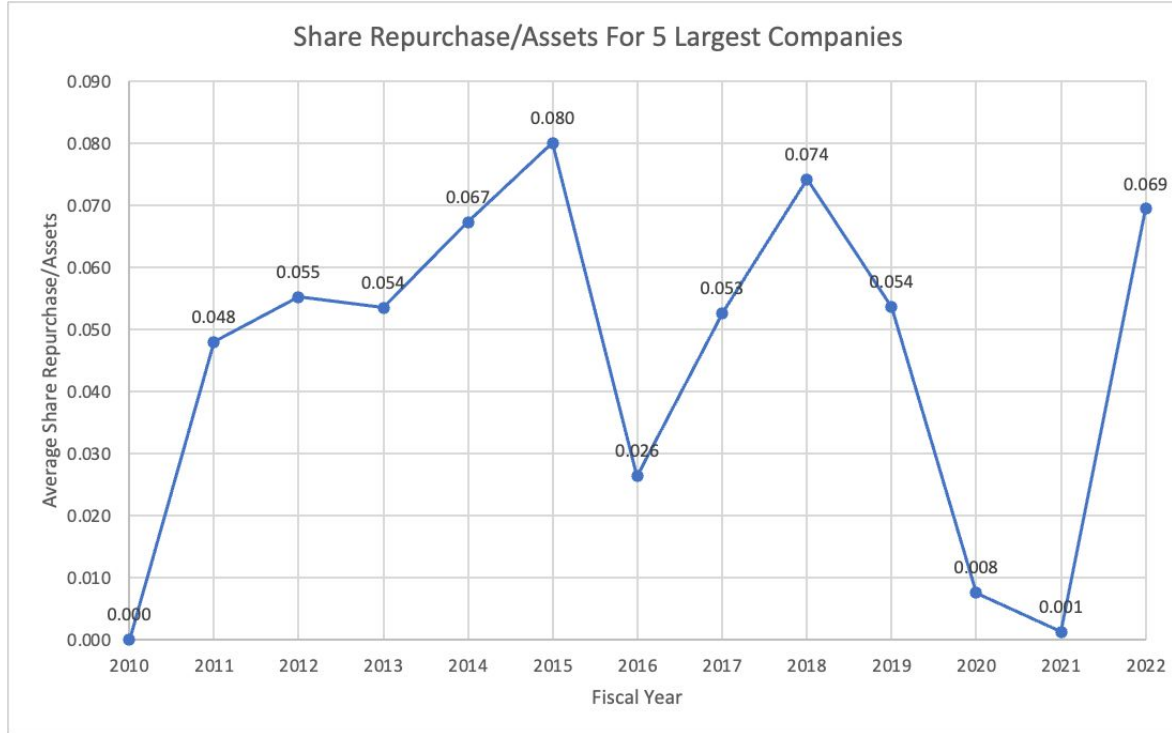
- Economies of scale: Larger companies can achieve economies of scale by spreading their fixed costs across a larger number of subsidiaries.
- Geographic diversification: As companies grow larger, they seek to diversify their geography by establishing subsidiaries in different countries.
- Access to capital: Larger companies may have easier access to capital to the establishment of new subsidiaries.

Share Repurchase for 10 Companies within the Industry



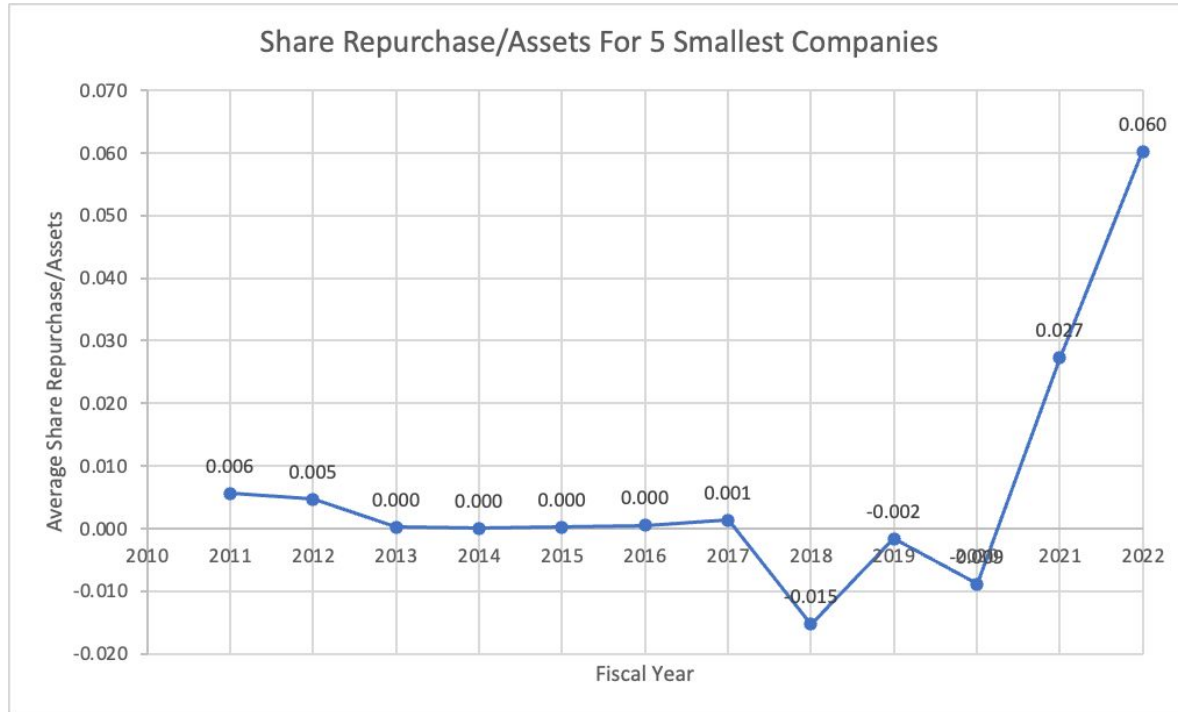
- 10 companies within the Hotel and Motel industry have increased their engagement in share repurchasing. Share repurchases increased gradually from 2010 to 2015, decreased dramatically in 2015, and are on a downward trend through 2020, with an extremely rapid increase from 2020 through 2022.
- In the future, we may see another dip because Biden proposed to increase in tax on stock buybacks and renews pushback against stock buybacks.

Share Repurchase for 5 Largest Companies within the Industry



By only looking at the 5 largest companies, the trend is similar to that of the 10 companies within the overall industry, indicating share repurchase driven by the largest 5 companies within the industry.

Share Repurchase for 5 Smallest Companies within the Industry



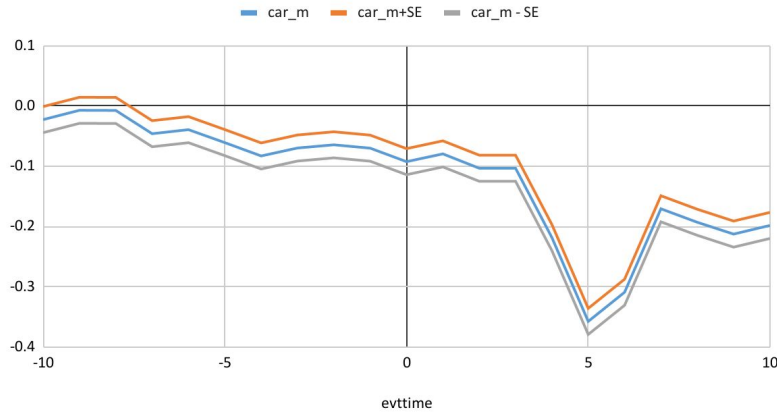
- By only looking at the smallest 5 companies, the trend is not similar to that of the 10 companies in the overall industry, indicating that small companies do not account for a large share of engaged in share repurchases.
- An increase from 2020 indicates that small companies are also starting to engage in share repurchases.



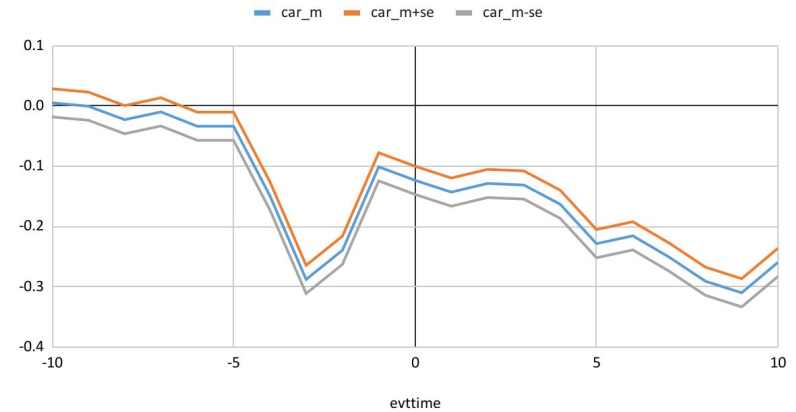
Event Studies

Cumulative Abnormal Return

Cumulative Abnormal Return on COVID 19 Announcement



Cumulative Abnormal Return on Aid Package Deal



Those are two very different scarinos:

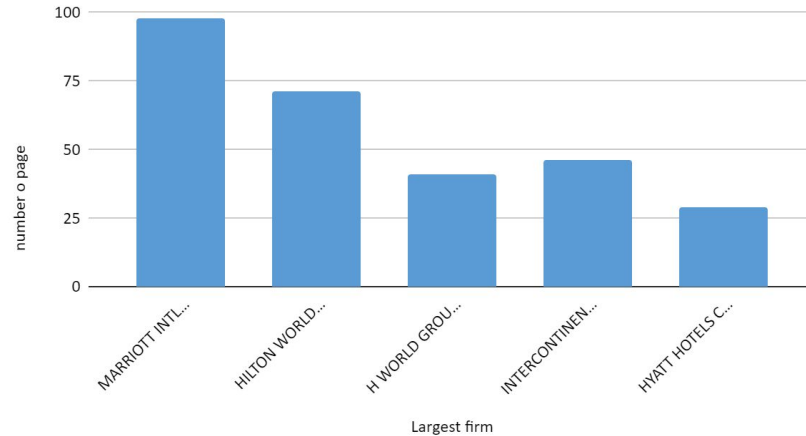
- The covid-19 announcement is unexpect, reflected by the aggressive drop after 5 days, the time for reactions.
- However, the deal on aid package is relatively predictable, so that the market had already reacted prior even the event happened, and wasn't had much fluctuation (decrease steady instead) on the announced day and beyond.



ESG Report

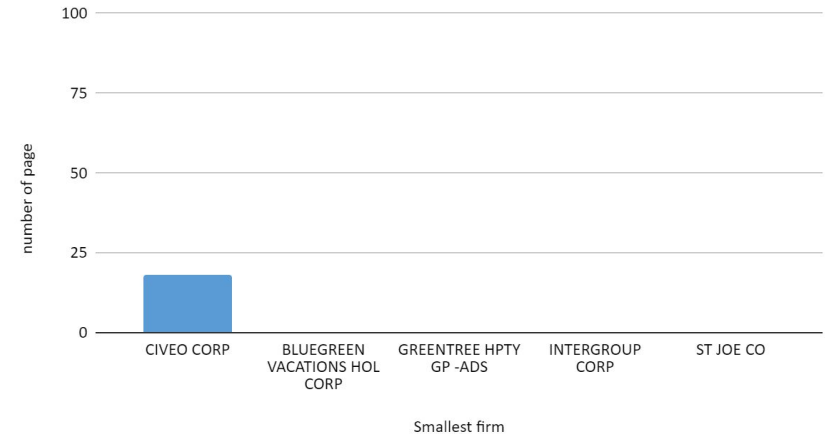
Sustainability report page decrease as firm size decrease

Number of pages for 5 largest firms



Average page of sustainability report for 5 largest firms: **57**

Number of pages for 5 smallest firms



Average page of sustainability report for 5 smallest firms: **3.6**

Large firms care a lot about sustainability, while small firms tend to care less. Many small firms don't have any sustainability reports or website.

ESG Variables

Energy Management

Evaluating a hotel's energy usage on whether it has reduced energy consumption. Over usage will leads to the massive release of greenhouse gas emissions, which contribute to climate change.

Water Conservation

Evaluating a hotel's water usage on whether it has reduced water consumption. Particularly important if hotel is in water-stressed region due to supply constraints.

Ecological Impacts

The waste generated by hotels can present risks to sensitive ecosystems such as nature preserves. Poor environmental protection practices will preclude hotels from obtaining new construction licenses in these sensitive areas in the future and diminish natural attractions for tourists.

Labor Practices

Evaluating a hotel's labor practices, including employee treatment, diversity and inclusion, and labor union. The low job satisfaction that can result in high turnover and potential lawsuits, which increased expenses for hotel operators.

Climate Change Adaptation

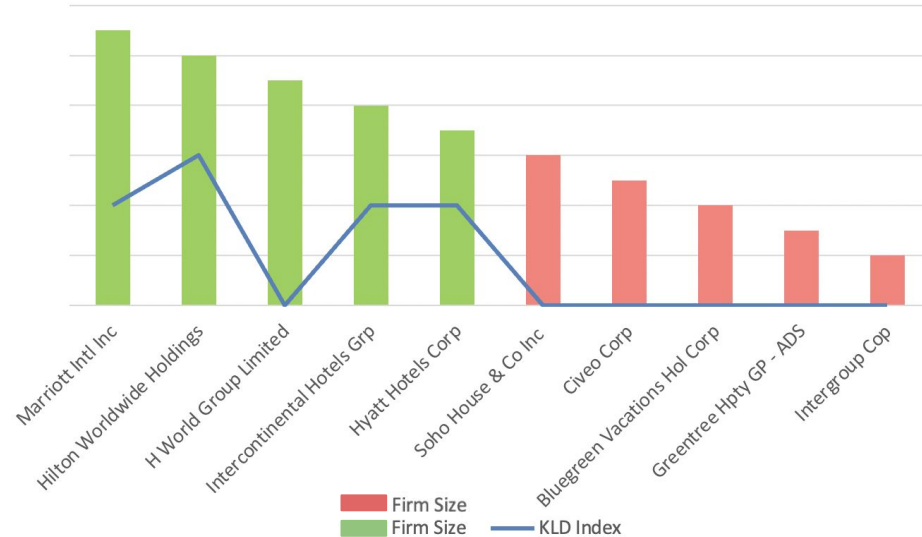
Hotels operating in climate change exposed areas may be impacted by inclement weather and flooding. Inclement weather may damage property and disrupt operations, thereby reducing asset values and revenues.



ESG Reporting on MSCI

Variables: Pollution Prevention, Clean Energy, Environment Other Strength, Substantial Emissions, Employee Involvement, Human Rights Other Concerns, Climate Change, Non Carbon Releases, Natural Capital = Water Stress, Water Management, Human Capital Development, Labor Management

Firm Size and KLD Index



Company	Strengths	Concerns	KLD Index
Marriott Intl Inc	2	0	2
Hilton Worldwide Holdings	3	0	3
H World Group Limited	0	0	0
Intercontinental Hotels Grp	2	0	2
Hyatt Hotels Corp	2	0	2
Soho House & Co Inc	0	0	0
Civeo Corp	0	0	0
Bluegreen Vacations Hol Corp	0	0	0
Greentree Hpty GP - ADS	0	0	0
Intergroup Cop	0	0	0

Computed KLD index based on areas of strength subtracting out areas of weakness for each firm in year 2019. Large companies have some data of 0, but small companies have all 0. Therefore, we believe that the KLD index of large companies is greater than that of small companies.



Conclusion

Epilogue



Key Takeaways

- Accounting
 - PP&E takes the highest proportion of Hotel industry asset. However, this might be affected by pandemic
 - Smaller companies tend to have larger proportion of PP&E compare to large companies
 - The proportion of cash is mainly affected by the market state of economy
- Executive Compensation
 - Executive compensation and the ratio of executive pay to worker pay generally have a positive relationship with the firm size (market capitalization)
 - Executive compensations are somewhat affected by economic conditions (such as Covid) but not as heavily
- Textual Analysis
 - Industry bog index was influenced by the pandemic, while all bog index is unaffected
- Financial Aspect of the Industry
 - A positive industry average betas indicate that our industry is generally in line with the market trend
 - Companies within the Hotel and Motel industry have increased their engagement in share repurchasing
- Event Studies
 - Market tends to predict and react before the events that they believe to happen
 - Market needs time to react and tends to react slowly if events are unpredictable
- ESG Report
 - Large firms tend to care more about sustainability than small firms

Epilogue: Looking Forward



Foresee of Hotel Industry

- Post Covid Era
 - As President Biden announced Covid is now officially over, there are signs of recovery in the industry.
 - Domestic leisure travel has been picking up and business travel is expected to resume
- ESG Factors
 - A growing trend towards sustainability and eco-friendliness
 - Many hotels implementing measures to reduce their carbon footprint and manage ecological impact
- Rise of technology and sharing economy will continue to impact the industry
 - E.g., online booking platforms and vacation rental websites like Airbnb

Firms Particularly Sparked Interest

- We are interested in learning more about the Marriott Intl Inc, because we find it outperformed other firms in many aspects as we examine their ESG and Financial Performance